Ref: 12/1/3/3/4/3

Enq: L S Mahaye

To: Municipal Manager
Musina Local Municipality
Private Bag X611
MUSINA
0900

CC: Chief Financial Officer

Subject: <u>Assessment of the 2016/17 Annual Budget tabled in terms of Section 16(2) of the Municipal Finance Management Act (MFMA)</u>

Please note that after the assessment of your Tabled 2016/17 Budget, Provincial Treasury has noted that your budget is unfunded. This is due to poor population of Tables A7 and A8 which are used to assess the funding position of the budget.

Kindly refer to Provincial Treasury assessment and concerns on your Tabled 2016/17 Budget forwarded to your Municipal Manager and copied to you which should be addressed by your municipality before the budget is approved by Council. Should the municipal Council approve the 2016/17 Budget in its current form, the budget will not be sustainable and the Provincial Treasury does not support the budget in its current form.

Furthermore, should your municipality approve the budget in its current form, I will have no alternative but to advise the National Treasury accordingly, which will consider stopping of the Equitable Share Transfer to your municipality in terms of Section 38 of MFMA, which states that, "National Treasury may stop the transfer of funds due to a municipality as its share of the local government's equitable share referred to in Section 214(1)(a) of the Constitution, but only if the

municipality commits a serious or persistent breach of the measures established in terms of Section 216(1) of the Constitution."

You are therefore, strongly urged to ensure that the municipality reassess the budget, fully populate all the tables including Tables A7 and A8. The municipality must re-calculate the Cash flow position to ensure that the 2016/17 budget to be tabled to Council for approval in terms of Section 24(1) of the MFMA is funded. Please note that Provincial Treasury will not accept unfunded budget.

Yours in public finance management

G PRATT (CA) SA
HEAD OF DEPARTMENT

28/7/16
DATE

LIMPOPO

PROVINCIAL GOVERNMENT

REPUBLIC OF SOUTH AFRICA

PROVINCIAL TREASURY

MUSINA LOCAL MUNICIPALITY

2016/17 FINANCIAL YEAR ADOPTED MTREF BUDGET ASSESSMENT REPORT

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Executive Summary

In terms of the requirements of the Municipal Finance Management Act and as part of its oversight role over local government finances, the Provincial Treasury is responsible for reviewing and commenting on the tabled budgets of all delegated municipalities prior to their adoption by the respective municipal councils. The tabled budgets of these municipalities were rigorously assessed in terms of quality and compliance with the prescriptions of the MFMA and the Municipal Budget and Reporting Regulations.

1. Brief description of analyses process (techniques)

The analyses cover areas such as, amongst others:

- Compliance with legislative framework and the Regulations;
- Comparison of actual financial performance against budget (for both capital and operating budgets);
- Cash position of the municipality and its ability to fund budgeted expenditure;
- Medium Term Revenue and Expenditure Framework (MTREF) appropriations and their credibility, affordability and sustainability;
- Contribution of the budget to national and provincial government priorities;
- Responsive of the budget to the Integrated Development Plan (IDP);
- Proposed investments in infrastructure and impact on Local Economic Development and job creation;
- The rates and tariffs proposed; and
- Support of the budget to indigent households;

2. Linkage of the Strategic Risks to the IDP and MTREF Budget

The strategic risks register for 2016/17 has been completed and it is partially linked to the MTREF and the IDP. The Strategic Risks register only covered the implementation of new revenue streams, grant funding, Review of overtime policy and upgrading of infrastructure. Provincial Treasury has noted that these items were considered in the 2016/17 budget. The municipality must explain why the strategic risks register for 2016/17 did not cover all aspect which needs to be included in the MTREF and IDP 2016/17.

3. Procurement Plan

The procurement plan was submitted. It is expected that the municipality will ensure strict adherence to the procurement plan to accelerate spending and avoid delays in the implementation of projects.

4. MFMA & MBRR Compliance

The municipality submitted the approved annual budget within 10 working days after its approval, however the Service Delivery Budget and Implementation Plan (SDBIP) was not submitted, as per the requirements of Regulation 20(2) of MBRR.

5. Draft comments consideration

Summary of draft budget key observations	**Consideration of Treasury inputs into the adopted budget**
Revenue framework	
• Provincial Treasury noted that the budgeted revenue for Fines has increased from R1 million to R1.9 million (46.1 percent) for which no explanation was provided in the budget narrative report.	The municipality did not consider Provincial Treasury's comments.
• The municipality has budgeted for Gain on the Disposal of Property, Plant and Equipment of R24.1 million in the 2016/17 financial year, although there is no indication of any proposed disposals of fixed assets in the budget documents	Provincial Treasury's comment was not considered when the municipality finalised the 2016/17 Adopted Budget.

Expenditure Framework	
• Employee related costs: Salaries for Senior managers of R8.2 million reflected in Table SA22 were not reconciling with R21.8 million reflected in Table SA23.	• The municipality did not consider the advice from Provincial Treasury when the municipality was requested to review and correct the budget for Salaries of Senior manager in preparing the 2016/17 Final budget.
• Provincial Treasury is still unable to comment on the reasonableness of the budget for Depreciation and asset impairment due to the fact that the municipality did not provide the basis of calculation in the 2016/17 budget document. Furthermore, the PPE carrying value as per Table A9 were still incorrectly populated under the Audited outcomes. Example, The PPE carrying value as per Table A9 was incorrectly reflected as R411.5 million under 2014/15 instead of R275.3 million as per the 2014/15 Audited AFS.	• The municipality was granted a second chance to revise the 2016/17 Draft Budget. The municipality did not consider any comments from Provincial Treasury in respect of Depreciation when preparing the 2016/17 Adopted budget.
• The municipality had increased the budget for Contracted services from R5.8 million to R10.8 million which is a 46 percent increase in this line item in the 2016/17 Approved budget. Furthermore, under Contracted services the budget for Security services has increased from R5.8 million to R6.5 million or 10.2 percent in the approved 2016/17 Budget. The municipality stated in the budget narrative report that this increase was due to a contract envisaged for 2016/17 which includes Electronic PMS and Prevention of fire system in the server. In addition, the	• During the engagement on the budget, Provincial Treasury requested the municipality to provide detailed explanation and clarity in respect of this line item. Provincial Treasury's comment was not adequately addressed by the municipality in the budget narrative report.

municipality budgeted for Health check-ups amounting to R2.3 million in the 2016/17 Budget. The budget narrative report indicated this amount was provided for medical detection programme.	
• The municipality's budget for Other expenditure increased from R17.8 million in the 2015/16 Adjustments Budget to R35.3 million in the 2016/17 Final Budget, which is an increase of 49.4 percent. MFMA Circular 79 requires that municipalities must justify all increases above 6.6 percent. However, no explanation was provided by the municipality in the final budget narrative report. Thus Provincial Treasury is still unable to comment on the reasonableness of the budgeted amount for Other expenditure.	• During engagement with the municipality on the 20th May 2016, the municipality agreed to provide reasons in the 2016/17 budget narrative report for the significant increase in the budget for Other expenditure. Provincial Treasury indicated all line items under Other expenditure which need to be justified from the second review report, which was discussed with the municipal officials and it was forwarded to the municipality on the same date for consideration and the municipality was also advised to consider the MFMA Circulars 79 and 82 when preparing the 2016/17 final budget. Musina Municipality failed to consider the views from Provincial Treasury's assessment reports in the 2016/17 Adopted budget

Cash Flow	
• The municipality has budgeted to collect 100 percent of total billed revenue on Property rates, which appears to be overstated when compared with the collection rate of 83 percent as indicated in the 2016/17 budget narrative report. A 100 percent collection rate is highly questionable when compared to Debtors age analysis for the end of April 2016. Under the Over 90 days category, an amount of R17.9 million was owed from the Property rates. • In Table SA10, the municipality is assuming an average collection rate of 116.9 percent which does not correlate with 83 percent as per the budget narrative report. • The municipality has applied a collection rate of 100 percent against the projected revenue of R88.9 million for Service charges – electricity revenue and R13.5 million for Refuse removal, which is unreasonable higher than the assumed collection rate of 83 percent in the budget document. As per the Debtors analysis for the end of April 2016, R4.5 million for Electricity revenue and R4.2 million for Refuse remove were owed in the Over 90 days category. The assumption in Tables A7 and SA30 are overstated. • As part of the assessment of the draft budget, Provincial	• On all the issues that were raise regarding the Cash Flow, the municipality did not consider comments from Provincial Treasury during engagement. Furthermore, the municipality was afforded an opportunity to make a reasonable anticipation of the collection rate and to revise its budget before tabling to Council

Treasury advised the municipality to be prudent in assessing the collectability of the cash inflows related to Interest earned - outstanding debtors. In the final budget, the municipality applied 100 percent cash inflow for this revenue source in their final budget. The collectability of this line item is questionable. The municipality is advised to include only realistically collectable amounts in Table A7. The amount of R2.1 million budgeted for this line item in Table A7 is overstated and no explanation is provided in the budget narrative report to justify the amount budgeted. • While the municipality has increased the budgeted opening cash and cash equivalents balance, the basis of calculation was not provided in the final budget narrative report. Thus, Provincial Treasury is unable to comment of the reasonableness thereof. • Further to the unsubstantiated opening balance, considering the budgeted cash receipts which appears to be significantly overstated and including concerns raised in the population of the final budget's Tables A4, A5 and A7, the closing cash and cash equivalents balance is highly questionable. It is noted that, the closing balance of R1 million does not reconcile to the Cash and Call investment deposit balance of R9.4 million reflected in Table A6. • Figures populated under the 2015/16 Adjustment budget	

columns did not reconcile with the figure from the approved 2015/16 Adjustments budget in Table A7. Due to inconsistencies noted, Provincial Treasury could not ascertain figure completed in Table A7 for reasonability. • In the final budget, the municipality has not budgeted for any unspent allocation to be cash backed. Provincial Treasury was unable to determine the reasonability thereof as the municipality has not submitted an updated grant register. The nil amount budgeted for unspent conditional transfers appears unreasonable in relation to an unspent national allocation balance of R9 million reflected in the 2015/16 grant schedule for the period ending 30 June 2016. • The municipality did not consider the inclusion of Statutory requirements, Other provisions and Unspent conditional transfers in Table A8.	

6. Credibility, funding and sustainability of the final budget

This section aims to assess the credibility, funding and sustainability of the adopted budget. Provincial Treasury has also conducted a high level assessment of your approved budget with a view of assessing whether the municipality has considered the comments and recommendations provided by Provincial Treasury on your draft budget, as required by Section 23(1)(b) of the MFMA, which states that the municipal Council must consider any views of the National Treasury, the relevant Provincial Treasury and any provincial or national organs of state or municipalities which made submissions on the budget.

Credibility

Due to Provincial Treasury being unable to comment on the reasonability of the various budget line items from operating revenue and expenditure, the credibility of the projected Operating surplus of R1.3 million is highly questionable.

There were discrepancies noted in the Audited Outcome figures completed in the A Schedules and the Annual Financial Statements figures from 2012/13 to 2014/15. Discrepancies were also noted in 2015/16 Adjusted Budget figures reflected under the current year's budget.

Furthermore, some of the projections over the MTREF were not consistent with prior years. It is recommended that the municipality should review these projections.

Funding

In order for the municipality to continue providing and extending services to the community, the budget of the municipality should be funded in accordance with the legal requirements of the Municipal Finance Management Act (MFMA). Tables A7 and A8 were poorly populated.

The Cash Flow Statement (Table A7) reflected unsubstantiated opening balance and estimated collection rate of 100 percent for all sources of revenue. This is highly questionable. Provincial Treasury recalculated the cash position for the municipality by applying 85 percent as per the budget narrative report.

The Cash backed reserved/ accumulated surplus reconciliation Table A8 excluded commitments in respect of Statutory requirement and unspent conditional grants. The

municipality's 2016/17 final budget is unfunded. Based on questionable figures and inconsistencies noted from the Statement of Financial Performance, Statement of Financial Position and the Cash Flow Statement, Provincial Treasury does not support the budget in its current form.

Sustainability

Revenue and expenditure management is fundamental to the sustainability of the municipality. The bulk of the revenue is from the Own revenue (61.2 percent). The municipality's Transfers recognised - operational source makes up 38.8 percent of total revenue.

7. Conclusion

The municipality is therefore, strongly urged to ensure that the municipality reassess the budget, fully populate all the tables including Tables A7 and A8. The municipality must re-calculate the Cash flow position to ensure that the 2016/17 budget to be tabled to Council for approval in terms of Section 24(1) of the MFMA is funded. Please note that Provincial Treasury will not accept unfunded budget.

8. Recommendations

The municipality is required to table Provincial Treasury's comments to council and forward us a council resolution as well as remedial action on how the errors and concerns raised will be addressed.

In terms of MFMA Circular No. 67, the municipalities are reminded to upload all their 2016/17 related annual budget returns to National Treasury's local government database before the end of July 2017. As National Treasury publishes the municipal budgets based on the information from annual budget returns, the municipalities are therefore, required to ensure that the figures reflected in the annual budget returns correspond with the figures as per the approved budget (Schedule A1 Version 2.8).

Prepared by:

L S Mahaye

Manager: Municipal Finance

Date: 27 / 07 / 2016

Reviewed by:

N N Mbungela

Team Leader: Vhembe District

Date: 28 / 07 / 2016